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Texas Instruments Pulls Out of Home Computers After \$110 Million Loss

DALLAS - Texas Instruments Inc. pulled out of the volatile home-computer market Friday after it reported losing \$110.8 million in the third quarter in addition to a \$119.2 million loss in the previous quarter.

Texas Instruments, whose 99-4A home computer was mainly responsible for the company's \$222.9 million loss for the first nine months of this year, said that "in order to limit further financial drain on TI, we have made the decision to withdraw from the consumer home-computer business."

"Production of 99-4A hardware will stop in November, requiring significant personnel reductions in the consumer group," it said.

The statement, issued by chairman Mark Shepard Jr. and president J. Fred Bucy, said "the first nine months of 1983 have been the most difficult period in the history of TI. We believe that with the painful, but correct, decision to withdraw from the consumer home-computer business, that period has now ended."

The company said that excluding the results from consumer products, Texas Instruments' financial performance improved. Texas Instruments, also a leading maker of semiconductors and defense electronics, said third-quarter sales, excluding home computers, rose 11 percent from a year ago.

In the third quarter of last year, Texas Instruments reported net income of \$36.9 million, or \$1.57 a share. Overall third-quarter sales slipped to \$1.01 billion from \$1.05 billion. In the first nine months of 1982, the company earned \$101.5 million, or \$4.30 a share. Nine-month sales edged up to \$3.28 billion from \$3.22 billion.

"Retail sales of 99-4A home computer consoles and software in the third quarter were disappointing," Shepherd and Bucy said. "Inventories at retail remained high, limiting new orders and resulting in an operating loss for the quarter."

"With this situation continuing into October, it became clear that fourth-quarter demand would not be sufficient to prevent large additional losses," they said.

Texas Instruments said it would continue to provide service for current 99-4A owners, and that it would make unspecified price cuts to dealers to clear current inventories of the machines.

The company also said it would continue to make its more-expensive personal computers aimed mainly for business and professionals.

Texas Instruments' withdrawal from the home-computer market, however, appears to confirm that a shakeout is well underway in the severely competitive industry.

The company was seen by many analysts as having been caught in a trap of its own making: a chief victim of a price-cutting war it helped initiate in August 1982.

The cuts lowered the retail price of its 99-4A first to about \$199 and then to \$99 in many markets earlier this year — some \$15 to \$20 below what some estimated was the production cost of the machine.

Texas Instruments and other companies had hoped that the low prices would encourage consumers to buy the machines and then to buy associated peripheral equipment, such as additional software, printers and extra memory — all items that hopefully would carry higher profit margins.

At first, in 1982, the price-cutting led by Texas Instruments triggered an explosion in sales of home computers.

But even though sales continued to expand briskly — about 5 million units are expected to be sold this year compared with 2 million in 1982 — the growth was not as high as Texas Instruments and others expected.

The sales growth began to slow for both the computers and peripheral equipment last fall. Dealers canceled orders or shipped back products, leaving the companies with bloated inventories whose value had to be written down, or off the books completely.

Texas Instruments received an added blow last February, when it reported a potential shock hazard in the computer's transformer and had to suspend shipments for a month.

At the same time, analysts said they detected growing dissatisfaction among many consumers over the limited abilities of a basic, inexpensive home computer which, in addition to costing about the same as video games, could perform few functions besides playing games.

The combination of the low prices, the machines' limitations and reports that companies were planning more advanced computers for the home kept many consumers from buying the 99-4A and other similarly priced computers, the analysts said.

It appeared many consumers were willing to pay more for a computer in exchange for more performance and capability.

Indeed, the home-computer market also has been rocked with rumors that International Business Machines Corp., the world's largest computer maker, soon will unveil a home computer for under \$1,000 with substantially more memory and performance than the 99-4A.

And Coleco Industries Inc. is now shipping its new machine, called Adam and priced at about \$700, that also has more-advanced features than the Texas Instruments computer.

Earlier this month news reports said Texas Instruments had canceled plans to introduce a new computer this year, the 99-8, perhaps because it first wanted to judge the success of IBM's new machine and recover from its 99-4A losses. But Texas Instruments, while acknowledging no new computer was planned this year, claimed it never announced that a new product was even being developed.

Despite its massive losses this year, Texas Instruments' decision to get out of home computers might cheer Wall Street.

Home computers account for less than 10 percent of the overall operations of Texas Instruments _ which posted 1982 revenue of \$4.33 billion _ and analysts have been encouraged by positive signs for the company's semiconductor and defense electronics groups.